

Legislative Bulletin.....November 7, 2005

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H.R. __ – Deficit Reduction Act – Title I

Title I – Committee on Agriculture

Background: Under the budget resolution (H. Con. Res. 95), the House authorizing committees were instructed to find savings to reduce the growth in mandatory spending. The House Agriculture Committee was originally tasked with finding \$3 billion in savings as part of a \$35 billion package of savings over five years. Once the Republican Conference adopted the more ambitious goal of \$50 billion in savings over five years, the Committee was expected to find additional savings.

Savings to Taxpayers: According to CBO, Title I would reduce federal spending by \$3.649 billion over five years (see Table 1). Such savings amount to 6.8% of the \$53.9 billion deficit reduction package.

Table 1. Savings By Subtitle, Outlays In Millions

Committee on Agriculture	2006	2006-10
Commodity Programs (27.6%)	-553	-1,006
Conservation Programs (20.8%)	0	-760
Energy (0.6%)	0	-23
Rural Development (12.2%)	0	-446
Research (17.0%)	0	-620
Food Stamps (21.8%)	-14	-794
Total Savings	-567	-3,649

Committee Action: On October 28, 2005, the House Agriculture Committee reported its submissions to the House Budget Committee to be compiled into one reconciliation package along with the submissions of the other authorizing committees. On November 3rd, the Budget Committee reported the package, the Deficit Reduction Act, for consideration by the full House of Representatives.

Farm Program Savings in Perspective: The Farm Security and Rural Investment Act (P.L. 107-171), commonly referred to as the 2002 Farm Bill, authorized most of the programs under the jurisdiction of the House Agriculture Committee for the 2002-2007 crop years. This legislation *increased* mandatory spending for farm programs by \$80.1 billion over ten year period. As a result, the farm sector is currently enjoying historic levels of federal taxpayer support. At the same time, the Department of Agriculture (USDA) continues to pronounce that the financial state of the U.S. agriculture sector is sound. For instance, according to USDA:

In 2005, net farm income earned sector-wide by all participants sharing in the risks of the farm business is forecast to be \$71.5 billion, down \$11 billion from the record \$82.5 billion estimated for 2004. This was the second consecutive year in which a record was established for net farm income. **The 2-year rise from 2002 to 2004 of \$46 billion in farm sector net income is unmatched in the history of the U.S. farm income accounts** [emphasis added].

Source: <http://www.ers.usda.gov/Publications/so/view.asp?f=economics/ais-bb/>

USDA maintains that “farm business asset, debt, and equity values are expected to rise through the end of 2005, supported by continuing high levels of net cash income and profit realized in 2004.” For instance, the value of farm business assets are projected to increase by 6.1% with the value of farm real estate to increase by 7.3% over last year. In addition, debt-to-asset ratios continue to decline to less than 14%. Source: <http://www.ers.usda.gov/briefing/farmincome/wealth.htm>

Summary by Subtitle:

Subtitle A: Commodity Programs:

Table 2. Commodity Program Savings, Outlays In Millions

	2006	2006-10
Reduce Direct Payments by 1% for 2006-09 Crops	-26	-211
Reduce Advance Direct Payments from 50% to 40%	-513	-513
Eliminate the Upland Cotton Step 2 Program	-14	-282
Subtitle A, Commodity Programs	-553	-1,006

- **Direct Payments:** Reduces the total amount of direct payments per farmer for a covered commodity by 1% for the 2006 through 2009 crop years (see note). Under current law, farmers receive cash payments for covered commodities defined in statute as “wheat, corn, grain sorghum, barley, oats, upland cotton, rice, soybeans, and other oilseeds.” Although classified differently, peanut farmers receive the same type of payments.

These direct payments – based upon the amount of acres farmed and the average crop yield on those acres over a period of time and a set statutory support price – are decoupled from current production, meaning the farmer has flexibility as to what (if anything) he plants. They represent one the three main sources of subsidies to the farm sector along with “counter-cyclical” payments (payments when market prices fall below a set target price) and marketing loans.

Note: While the bill limits the reduction to the 2006 and 2007 crop years, it also includes a provision that “no reduction shall be made...for the 2010 or any subsequent crop year.” This seeming discrepancy is intentional because the 2002 farm bill expires in 2007 (even though CBO assumes that such spending will continue under its baseline projections), and this provision allows for the reform-generating savings to last through 2009 without reauthorizing a new farm bill.

- **Advance Payments:** Reduces the amount of direct payments that can be advanced for the 2006 and 2007 crop years from 50% to 40%. Under current law, farmers can receive up to 50% of their direct payments in December and the rest the following October. However, according to CBO, this provision does “not affect the total value of direct payments that

producers are eligible to receive for each crop year, only the timing of the payment. By shifting payments from one year to the following year, this provision would have the effect of reducing outlays in 2006 and shifting some outlays beyond 2015.” Some conservatives may be concerned that this reform does not constitute any real long-term savings for the taxpayer and merely shifts costs further into the future.

- **Upland Cotton Step 2 Program:** Eliminates the Upland Cotton Step 2 Program, effective August 1, 2006. Under current law, these cash payments are provided to domestic cotton mills and exporters of U.S. upland cotton whenever world cotton prices are lower than U.S. cotton prices. In March 2005, the World Trade Organization ruled that this program constitutes an unfair trade subsidy and authorized Brazil to commence WTO-sanctioned retaliatory measures if it was not repealed.

Subtitle B: Conservation Programs

Table 3. Conservation Program Savings, Outlays In Millions

	2006	2006-10
Limit the Watershed Rehabilitation Program	0	-225
Limit the CSP to \$2.27 billion in total spending	0	-504
Eliminate funds for AMAP	0	-31
Subtitle B, Conservation Programs	0	-760

- **Watershed Rehabilitation Program:** Reduces the amount of funding for the Watershed Rehabilitation Program to \$50 million (from \$65 million) and rescinds all prior year funds that have been unobligated. The Watershed Rehabilitation Program provides funds for local communities to rehabilitate or remove old dams.
- **Conservation Security Program:** Limits the total amount of funding for the Conservation Security Program (CSP) to \$2.2 billion over the 2006-10 period and \$5.7 billion over the 2006-15 period. Current law limits CSP spending to \$6 billion over the 2005-14 period. In addition, the CSP’s authorization is extended through 2011, beyond the expiration date of the current 2002 farm bill.

Created in 2002, the CSP provides payments to farmers who practice conservation on land currently being used for agriculture production. The program differs from the Conservation Reserve Program which pays farmers not to farm their land. According to CBO, “certain provisions of the [CSP] program cast doubt on its likely effectiveness. Making payments to producers who have already adopted conservation practices does not add to the nation’s conservation efforts. And making payments that exceed producers’ costs to adopt and maintain conservation measures can be seen as a wasteful use of federal funds.”

- **Agriculture Management Assistance Program:** Prohibits funding under the Agriculture Management Assistance Program (AMA) for three years (2007-10). The program provides incentive payments to farmers to undertake conservation efforts to improve water quality or soil erosion in 15 states where participation in the federal crop insurance program is historically low. Those 15 states include: Connecticut, Delaware, Maine, Maryland, Massachusetts, Nevada, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, Utah, Vermont, West Virginia, and Wyoming.

Subtitles C-E: Energy, Rural Development, and Research

Table 4: Energy, Rural Development, and Research Savings, Outlays In Millions

	2006	2006-10
Eliminate funds for Renewable Energy Systems in 2007	0	-23
Eliminate funds for Enhanced Access to Broadband in 2007	0	-47
Eliminate funds for Value-Added Marketing Grants in 2007	0	-160
Eliminate funds for Rural Business Investment in 2007	0	-89
Eliminate funds for Rural Business Strategic Investment in 2007	0	-100
Eliminate funds for Rural Firefighters & Emergency Grants in 2007	0	-50
Eliminate funds for Initiative for Future Ag. & Food Systems in 2007-09	0	-620
Subtitles C-D, Energy, Rural Development, and Research	0	-1,089

- **Renewable Energy Systems:** Eliminates funding for the Renewable Energy Systems and Energy-Efficiency Improvements Program for one year (2007). This program provides loans and grants to farmers and rural small businessman to make energy efficiency improvements.

Note: According to the Congressional Research Service (RL31837), there are more than 88 federal programs administered by 16 different agencies addressing economic development in rural areas. They include the following five programs:

- **Enhanced Access to Broadband:** Eliminates funding for the Enhanced Access to Broadband Program for one year (2007) and rescinds any unobligated funds as of September 30, 2006. This program provides loans and grants to construct facilities and acquire equipment for the expansion of broadband services in rural areas.
- **Value-Added Marketing Program:** Eliminates funding for the Value-Added Marketing Program for one year (2007) and rescinds any unobligated funds as of September 30, 2006. This program provides grants to producers of value-added agriculture commodities to develop business strategies and marketing opportunities. Value-added agriculture is when the farmer both produces a commodity and increases its economic value with either food processing, canning, unique packaging, labeling, etc.
- **Rural Business Investment Program:** Eliminates funding for the Rural Business Investment Program for one year (2007) and rescinds any unobligated funds as of September 30, 2006. This program provides grants and direct loan subsidies to invest in rural businesses through Rural Business Investment Companies.
- **Rural Business Strategic Investment Program:** Eliminates funding for the Rural Business Strategic Investment Program for one year (2007) and rescinds any unobligated funds as of September 30, 2006. This program provides grants to Regional Investment Boards to provide investment capital in rural areas.
- **Rural Firefighters and Emergency Personnel Grants:** Eliminates funding for the Rural Firefighters and Emergency Personnel Grant Program for one year (2007) and rescinds any unobligated funds as of September 30, 2006. This program provides grants to local governments to pay the cost of training firefighters and emergency medical personnel in rural areas.

- **Initiative for Future Agriculture and Food Systems:** Eliminates funding for the Initiative for Future Agriculture and Food System for three years (2007-09). This program provides for grants for research and educational activities to address “critical emerging agriculture and rural issues” (including future food production, farm income, rural economic development, etc.).

Subtitle F: Food Stamps

Table 5. Food Stamp Program Savings/Spending, Outlays In Millions

	2006	2006-10
Restrict Categorical Eligibility	-40	-574
Extend the Residency Requirement	-25	-275
Interaction Effects	1	5
Emergency Food Assistance Program (Katrina/Rita)	12	12
Disaster Food Stamp Program (Katrina/Rita)	38	38
Subtitle F, Food Stamp Program	-14	-794

- **Categorical Eligibility:** Restricts categorical eligibility under the Food Stamp Program to only those TANF (welfare) recipients who receive cash assistance and not other services (such as job placement services). Under current law, any TANF recipient is automatically eligible for food stamps and does not have to meet the normal income or asset tests. Those TANF recipients who receive non-cash assistance could still be eligible for food stamps in the future, but they would now have meet the income and asset tests already present in the program. This provision would last only five years and then revert back to current law in 2011.
- **Residency Requirement:** Extends the residency requirement from the current five to seven years before legal permanent residents can be eligible for food stamps. Under current law, the residency requirement does not apply to children under the age of 18 or those who are disabled. This provision would last only five years and then revert back to current law in 2011.
- **Interaction Effect:** According to CBO, the savings from restricting categorical eligibility is slightly offset (\$5 million over five years) when taken together with extending the residency requirement. This is called the “interaction effect” between the two policies.
- **Emergency Food Assistance Program:** Extends the Emergency Food Assistance Program through 2011 (already assumed in the baseline) and provides an additional \$12 million to purchase commodities for distribution to states affected by Hurricanes Katrina and Rita.
- **Disaster Food Program:** Authorizes the federal government (at the discretion of the Secretary of Agriculture) to pay 100% of the administrative costs of operating the food stamp program in states affected by Hurricanes Katrina and Rita. Under current law, states are required to share 50% of the food stamp program administrative burden.

Does the Bill Contain Any New State-Government, Local-Government, or Private-Sector Mandates?: No.

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